



One-offs Dent Otherwise Strong Quarter

Nadec reported strong 4Q18 results on March 31st with revenues and gross margin topping our forecast – affirming pricing strategy and market share gain. However, impairment charge of c. SAR 53 mln on agri assets drove earnings miss. Adjusting for the one-offs, the Company reported significantly better than expected operating and net income. While we were looking for a loss of SAR 7 mln, adjusted net income would have been c. SAR 12 mln. We expect ASD merger to close this year (resulting in higher share count) and consolidated full-year financials from next year. In our view, the combined entity has room to further optimize logistics and gain market share. Reiterate Buy and SAR 40 target price, representing 9.6x 2020E EV/EBITDA.

KSA sales boost topline

Revenues for the quarter reached SAR 487 mln (+6% Y/Y), topping our SAR 471 mln estimate. Full-year sales of SAR 2,096 mln (+3% Y/Y) benefited from +6% Y/Y growth in KSA countering -15% Y/Y decline in other countries. Agricultural sales, comprising around 10% of total revenues, are expected to further shrink in 2019 as agri activities wind-down. We believe Nadec's pricing strategy paid-off during 2018, helping the Company gain market share. Further, we see a continuation of this strategy as margins proved resilient.

Fees double while depreciation expense cut support gross margin

Gross margin improved by 180 bps versus 4Q17 to nearly 37%. Cost of sales across some items declined, inline with market conditions, however lower depreciation expense yielded the greatest benefit. Total depreciation (CoS, SG&A) trimmed -18% Y/Y to SAR 268 mln. Conversely, fees and government expenses more than doubled to SAR 55 mln. We expect this expense to continue escalating through 2020, requiring cut backs in other areas of SG&A.

Adjusted earnings positively surprise

Nadec reported impairment loss on agricultural assets amounting to nearly SAR 53 mln. In addition, impairment of trade receivables of SAR 7 mln was booked. Adjusting for these one-off items, we estimate 4Q18 operating income at SAR 24 mln (+31% Y/Y) and net income at SAR 12 mln, comfortably topping our forecast. In our forward estimates, we assume that agri assets have been entirely written-down and no further charges are expected. For 2019, we expect the merger with ASD to close, resulting in additional shares (tables on the right reflect existing share count). Operationally, Nadec executed well in 2018, capturing market share and reducing costs. However, with limited pricing power and escalating fees, the Company will have to gain further efficiencies which could be challenging, ultimately necessitating scale.

NADEC (SAR mln)	4Q18	4Q18E	4Q17	Y/Y Chg	3Q18	Q/Q Chg	Variance
Revenues	487	471	461	6%	575	-15.2%	4%
Gross profit	179	169	166	8%	221	-19.1%	6%
Gross margin	36.7%	35.9%	35.9%		38.5%		
Operating profit	(35)	14	19	-289%	56	-163%	-351%
Operating margin	n.m.	3.0%	4.0%		9.7%		
Net income	(48)	(7)	(8)	529%	35	-236%	619%
Net margin	n.m.	n.m.	n.m.		6.1%		
EPS (SAR)	(0.57)	(0.08)	(0.09)	529%	0.41	-236%	619%

SAR 40

12-Month Target price

Buy

Recommendation

Stock Details		
Last Close Price	SAR	27.50
Upside to target	%	45.5
Market Capitalization	SAR mln	2,329
Shares Outstanding	mln	84.7
52-Week High	SAR	39.00
52-Week Low	SAR	23.80
Price Change (YTD)	%	(6.6)
3-Mth ADTV	thd	282
EBITDA 2019E	SAR mln	413
Reuters / Bloomberg	6010.SE	NADEC AB

SAR mln	2018	2019E	2020E
Revenues	2,096	2,121	2,439
Gross Margin	37%	36%	35%
EBIT	72	118	117
Operating Margin	3.4%	5.6%	4.8%
Net Income	1.7	7.6	9.5
Net Margin	0.1%	0.4%	0.3%
EPS (SAR)	0.02	0.09	0.11
DPS (SAR)	-	-	-

Price Multiples			
	2018	2019E	2020E
P / E	n.m.	n.m.	n.m.
EV / EBITDA	12.0x	10.0x	7.6x
P / S	1.1x	1.1x	1.0x
P / B	1.6x	1.6x	1.6x

1-Year Share Performance (Rebased)



Source: Bloomberg, Tadawul, SFC

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Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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